

Review

Avoiding the Pitfalls of Reform

As expected, the democratic forces won the December elections. And even though another extremist party entered parliament due to the low turnout, the DOS victory must not be "looked in the mouth." To win 65% of the votes and 70% of the seats in parliament is a clear mandate to carry out changes, but also an enormous responsibility for those taking over the levers of power.

At the time of this text's writing, the future Serbian government's personnel are known and have already begun to function informally. Regulatory changes are in preparation, teams are assembling, and projects are proceeding. A reform orientation is visible within the new establishment in practically all segments of the state apparatus, in the media, and more importantly, in the society. However, even the first few months of this year will show us whether or not we are heading towards essential reforms of our economy and manner of ruling.

The starting position is objectively difficult, but, nevertheless, we have the needed conditions for the successful implementation of necessary reforms. However, numerous challenges lie ahead. If we yield to them and head towards pitfalls, we could very soon be switched from the "Polish/Hungarian" to the "Romanian/Ukrainian" tracks where pro-reform rhetoric can be heard, but where things move slowly, and the essence of the system is not changing. In such circumstances it is important to define well which reforms are of the greatest importance and which traps must be avoided at any cost. We can, thus, transform the already proverbial "we are watching you" into its operative expression "we are measuring your accomplishments." Business people know well that "what is measured, is done."

Suspension of Everyday Politics

The federal deputy prime minister recently said we had already spent half of the valuable time for reforms, three of six months of a "suspension of everyday politics" which occurs at the moment of political transition and never again. This unrepeatable period in time was experienced and then described by a leading protagonist of the Polish transition Lešek Balcerovič. During this moment, society is ready for essential changes, interest groups have still not regrouped and there is political space for acting in the

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FRY ^{a)}	1999	1999	XI 2000	XI 2000	XI 2000	I-XI 2000
Basic Economic Indicators	1998	1998	X 2000	XI 1999	I-XI 1999	
Industrial Production	...	-24.1%	...	7.6%	-4.2%	13.2%
Montenegro	...	-7.6%	...	2.5%	26.6%	5.9%
Serbia	...	-25.6%	...	7.9%	-6.0%	13.7%
Central Serbia	...	-24.5%	...	8.4%	-6.8%	15.1%
Vojvodina	...	-28.2%	...	7.0%	-4.3%	10.4%
Average Wage - DM	107	-31.7%	...	...	...	...
Montenegro	154	-14.1%	...	...	...	...
Serbia	102	-33.8%	110	12.4%	20.6%	-16.1%
Unemployment Rate ^{b)}	27.3%	8.3%	28.7%	...	...	...
Montenegro	36.8%	7.9%	39.8%	...	...	...
Serbia	26.5%	8.2%	27.8%	...	...	...
Export - USD million	1,498	-46.9%	131	-4.2%	-8.0%	13.6%
Montenegro	123	-4.7%	7	1.1%	-49.2%	23.8%
Serbia	1,375	-48.9%	124	2.1%	-3.7%	12.2%
Import - USD million	3,296	-30.3%	252	2.1%	-11.6%	11.1%
Montenegro	358	6.9%	17	28.5%	-45.9%	-13.4%
Serbia	2,938	-33.2%	233	17.9%	-7.1%	14.0%
Monetary supply (M1), end of period, DIN billion	16.4	51.9%	26.7	11.5%	67.7%	58.6%
Cash	6.7	34.0%	9.1	11.6%	45.9%	38.2%
Deposits	9.7	67.2%	17.6	11.4%	81.8%	72.4%
Real money supply, end of period, DM million	739	-42.3%	889 ^{c)}	16.3%	8.3%	-30.5%
Market exchange rate, monthly level	4.25%	-38.8%	6.88%	1.9%	55.0%	34.2%
Retail prices	...	42.4%	...	16.9%	109.6%	71.2%
Montenegro	...	60.1%	...	...	...	...
Serbia	...	41.1%	...	19.0%	104.9%	65.1%
Cost of living	...	44.9%	...	11.6%	115.3%	81.8%
Montenegro	...	67.2%	...	...	...	...
Serbia	...	43.5%	...	13.0%	111.1%	75.3%
Industrial prices	...	44.2%	...	22.0%	133.5%	102.1%
Montenegro	...	63.7%	...	...	...	...
Serbia	...	43.2%	...	23.7%	130.4%	97.7%
Black market exchange rate (din/DM)	12.6	88.1%	30.00	0.0%	73.4%	111.6%

^{a)} GDP for 1999 was 14,224 million USD, GDP per capita was 1,699 USD, GDP annual growth rate in 1999 was -19.3%, GDP annual growth per capita in 1999 was -19.1% (G17 estimate based on official data of the Federal Statistics Bureau).

^{b)} Unemployment rate refers to October.

^{c)} Real money mass is calculated by dividing nominal money mass with the black market rate.

A brief window of opportunity

Only transparency can return public confidence to the financial sector

Measure reforms & hold the government accountable

general interest of society. Afterwards things normalize and reforms, like in normal times and in normal societies, are hindered and mitigated in accordance with organized interests.

True, the complexity of our political transition is not very helpful. In order for our transitional moment to come about it took two elections, a forced out federal coalition and an unsound transitional republican government in which, for example, those who had obstructed privatization for years are suddenly speeding it up in an effort to ensure their future economic and political influence. Of course, the power cuts and the events in southern Serbia do not ease things.

However, "the suspension of everyday politics" remains. It will not last as long as the Democratic Opposition of Serbia (DOS) does, but the victory of precisely such a broad coalition offers space for acting in favor of the general interest. It is up to the protagonists of economic policy to take as best advantage of this as possible in the interest of the citizens.

Nevertheless, in view of the mentioned limitations, the results of the first three months are good. Monetary stability, the introduction of convertibility, lowered inflation, speedy inclusion into the international community and financial institutions, the mobilization of the first wave of donations, foreign trade deregulation, and even a somewhat better realization of the budget in December – are all concrete accomplishments. The public does recognize them as the first important steps, but there are also reservations since it is clear that these accomplishments will not persist unless five pitfalls of our reform are avoided.

Avoiding Five Pitfalls of the Reform

Everything about a radical economic reform is complex and difficult, but in our case five pitfalls could lead to the speedy waning of the "suspension of everyday politics":

1. **Setting plants into motion instead of improving the economy's competitiveness.** In the understandable desire to justify the voters' confidence with quick results, one can very often hear ideas about the revival of the economy with no heed paid to budgetary and other economic effects. Numerous seemingly modern proposals for financing by means of primary emission or through favorable credits are proposed in various branches without adequate projections of the profitability and sustainability of the described undertakings. A large investment cycle, and doing jobs "with the use of muscles" are obviously still present in the minds of many and we should still beware of them. For these reasons, success should be measured by the number or scope of business plans that are at least partially supported by institutions such as the European Development Bank or consortiums of domestic and foreign banks. Furthermore, it is necessary to measure the difference in productivity between our companies and their direct competition, search for concrete plans to bridge this gap and stipulate any financing by progress in this respect, of course, with accompanying social measures.
2. **Maintaining links between the state, banks, and large companies instead of a division of roles and the encouragement of sound competition.** During the thirteen years of the former regime's rule, terms like "banker" or "businessman" were distorted to such an extent that many automatically link all those involved in such affairs with irregular activities. And there is no doubt that this layer of powerful entrepreneurs and bankers will be of great importance to us. However, it will be even more important not to have the conclusion of business deals be the subject of direct and non-transparent negotiations under the state's auspices. It would thus be important to measure success by bringing as many spheres as possible to open competition, by the successful completion of state tenders for privatization, as well as obliging that the sale of securities be conducted on the open market, without an unjustified right of preemption.
3. **Division between "federal and republican Serbs" instead of an effective re-regulation of the state.** Formal divisions of competencies between the federation and republics in the economic sphere obviously no longer correspond to the actual state of affairs, which leads to a waste of energy and disputes. It also complicates our international presentation. For this reason, it is necessary to measure the success of talks on re-regulating the state by the simplification of these relations and the creation of conditions for the rationalization of the state apparatus.
4. **Tolerating "low intensity" corruption and tax evasion instead of perseverance and a principled attitude to these issues.** One of the government's priorities is to check large-scale crime and corruption. However, there is the risk that, by "acknowledging our nature and tradition" and calculating the costs of the fight against corruption and tax evasion in accordance with their scope, minor forms of these phenomena will be tolerated. Nevertheless, they are no less detrimental in the long run. The measure of success should be whether everything is done by the law in everyday life, between doctors and patients, judges and citizens, citizens and tax regulations, and between citizens and the public revenue administration. If not checked consistently and in its entirety corruption may reappear and acquire larger proportions.
5. **Inconsistent presentation to international financial institutions instead of partnership based on clear interest.** It is obvious that the international community can either hinder or facilitate the realization of reforms. The heritage of the past thirteen years of the former regime is so difficult, with the international community having made it even more difficult through sanctions and bombardment, that we will need support over the next two or three years. Far from the inhumane setting of conditions on the one hand, and the humiliation of begging on the other, the international community and we possess elements of partnership based on clear interest. Investing in a stable and democratic Serbia and Yugoslavia is a deal that could produce very positive results for both sides. The measure of success in this sphere must be a high degree of a consensus in the country, and a professional and unified presentation measured by its effectiveness in attracting funds (donations, credits, debt rescheduling) compared to countries in our environment or which are in a similar position.

No matter how great the obstacles, reform has never had better prospects than today. Adequate measures by the authorities can considerably contribute to this dynamics and maintain as long as possible "the suspension of everyday politics." It is up to the citizens and the civil society to assist in the further avoidance of pitfalls threatening the reform, through a well-set and carefully monitored standard of accomplishment.

Science in Serbia: European Reintegration is Critical

At the beginning of the 1990s, it seemed that the funding of scientific research in the country would see a considerable rise. Furthermore, quite sound criteria for evaluating scientific research were established. Publications were divided into categories by their significance and the standing of the journals (according to a so-called impact factor) they had been published in. All indications suggested that, despite the neglect of laboratories at institutes and universities, investments in science and science itself would take the right road.

This funding stood at approximately 1% of gross national income which was, for instance, more than Croatia allocates today (0.5%). In Europe, the funding of science accounts for 1.8% of gross national income, in the US its share is 2.7% and in Japan 3.1% of gross national income. However, with the imposition of sanctions, the funding intended for scientific research plunged. The value of the per diems that could be obtained from both the federal and republican ministries of science every other year for traveling to a scientific gathering fell dramatically. Per diems were reduced from four to three, and their disbursement was made according to the official exchange rate (1DM=6din), while the real exchange rate was much higher (1DM=24din). With such daily allowances a Serbian scientist with an opening lecture at some international congress in America or Austria was not able even to reach Budapest.

The sharp decline in care for science followed the election of Ministers and their assistants who were party yes-men. As a rule these people found it difficult even to complete their regular studies in 10 years time with an average grade of 7. So, we witness a classic revenge of bad students. If to this we add the dictatorship imposed at the University, the separation of scientific institutes from the University under so-called Šešelji's, Marković's and Bojić's Law on the University, and the fact that many academicians obediently followed the minister's "scientific guidelines," one should be glad that anyone in Serbia still thinks about science at all.

The "brain drain" problem is characteristic of all countries of south eastern Europe, but its proportions are drastic in this country. It is estimated that around 300,000 young and educated people left the country over the past ten years. Most of them are now doing scientific research in the West. The official figure of the outgoing Ministry is that Serbia has 15,000 scientists (see article: Richard Stone, "Help Needed to Rebuild Science in Yugoslavia" Science, Vol. 29, London, 2000). However, the realistic figure stands at around 7,500. Namely, there existed three types of projects:

1. **five-year Basic Research** projects fully financed by the state;
2. **Technological projects** (lasting 3 years) 70% of which was funded by the state and 30% by the industry; and
3. **Innovative projects**, lasting one year, financed 50% by the state and 50% by the economy.

A scientist with a high SCI (Science Citation Index) and with articles published in foreign journals earned at one time 20DM per month. As a rule, the same names would appear on both the Basic and Technological or Innovative projects for a total period of 4 months. Therefore, it is realistic to estimate that the number of scientists in Serbia is half the official figure.

View into the Future - Joining European Scientific Projects

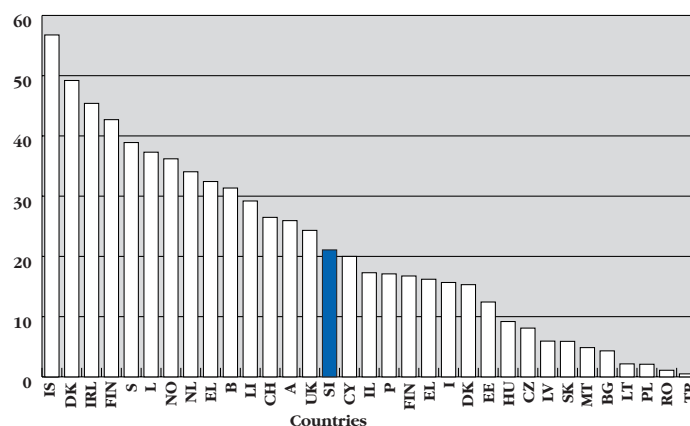
Owing primarily to the changes effected at the elections of September 24 and December 23, 2000, we will be able to apply, perhaps even this year, for participation in European projects. A workshop for the preparation of the EU's FP6 was held in Vienna on December 12 and 13, 2000. The meeting was devoted to countries of South Eastern Europe: Croatia, Bosnia-Herzegovina, Macedonia and Albania. Yugoslavia was invited as an observer.

Representing the EU, and in charge of international scientific cooperation, were: Rudolf Meijer and Peter Hartwich, of Austria, Dr Raoul Kneucker, director general of the Federal Ministry of Science, and Manfred Horvat, director of the Bureau for International Scientific and Technological Cooperation and Dr. Erhard Busek, coordinator of SECI (South Eastern Europe Co-operation Initiative). Ten years ago, Europe began investing in the development of science in Balkan countries. Slovenia (which can serve as a good example for us) has made the greatest progress, but Bulgaria and Romania are not lagging far behind. Major progress has been achieved by Croatia, Bosnia-Herzegovina, Macedonia and even Albania. The level of progress is best seen on the example of Slovenia, which is presented in the following diagram.

**International
isolation and
domestic neglect**

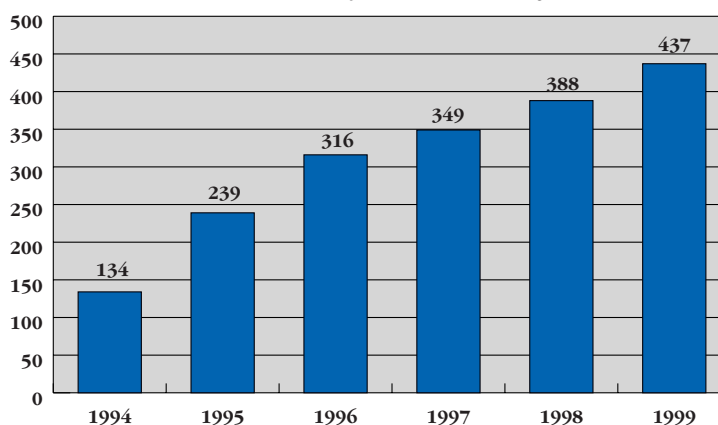
**The EU shows an
early interest in
cooperation**

Number of Participants in EU Scientific Projects per 100,000 Inhabitants



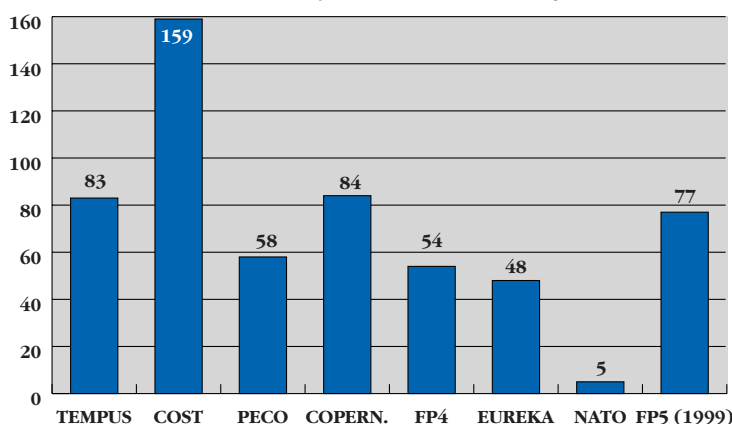
Slovenia ranks among medium developed countries according to the number of participants in EU projects per 100,000 inhabitants (around 20). This comes as no surprise since this country has long since had in Brussels its bureau for science and economic cooperation with Europe. As the graph shows – Turkey ranks last. Of course, Yugoslavia is not included in the above graph. However, Slovenia too needed a few years to reach the present level. This will be the case with our country as well. The following graph best shows this:

Total number of bilateral projects



The number of projects in Slovenia has constantly been on the rise since 1994. The following diagram shows Slovenia's total number of multilateral projects by certain scientific projects: TEMPUS, COST, PECO, COPERNICUS, FP4, EUREKA, NATO, FP5.

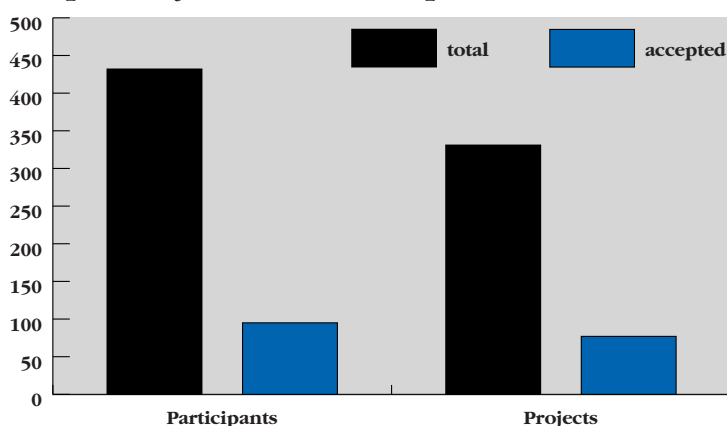
Total number of multilateral projects



Finally, a highly indicative figure is success at tenders. As the following diagram shows Slovenia's rate of success is about 20%. Tenders are public. Organizations and individuals send in their proposals, while projects are considered on the basis of the rigorous critique of a number of anonymous reviewers.

Years are needed to reach the desired levels

Republic of Slovenia's Participation in FP5, 1999



Therefore, it is very important that we learn how to write and prepare proposals for EU tenders, so that good ideas do not fall through due to a lack of knowledge of the language of scientific grant proposals.

What is Europe's interest in soliciting tenders from Balkan countries? It is primarily the fact that a large portion of this money returns to scientific institutions in EU member countries and their researchers. The second reason is that it does not want to see a "brain drain" take place in Balkan countries before its very eyes. Namely, with the departure of scientists there will be no thinking people left to push ahead the development of the region in the economic sense, and thus of democracy as well.

The EU's FP6 (Framework Programme 6) will last between 2002 and 2006. There are also specific projects such as: TEMPUS, EUREKA, COPERNIKUS, COST, etc. We have heard about some of them, are prepared to submit proposals, but were until recently prevented by sanctions. There is also a program for the exchange of scientists called SOCRATES. Finally, there will probably be a tender for a program that is to be called CARDS. The planned budget is 4.3 million euros. Tenders for this program will be invited on March 15, 2001, and may be received until June 15, 2001. The priority topics are:

- a) **The environment and industry: regional problems.** The subtopics are the treatment of industrial and urban waste and the use of recycled material as well as the development of industrial technologies benign for the environment;
- b) **Health: specific regional problems.** Reviewed within this topic will be post-conflict and post-traumatic health problems with the purpose of finding the most effective procedures and treatments for dealing with them.

It is up to the new Serbian Government to continue as soon as possible the initiated contacts at this working meeting. This will, unfortunately, not be an easy task. Our scientists have had practically no contact with European science for ten years now. Regardless of how our country's economy will develop and how large our own investments in science will be, the right and only road should be our scientists' inclusion in EU scientific projects.

Priorities

Based on all that has been said, the priorities are as follows:

- The new Government must see to it that Yugoslavia establishes relations with all institutions in Europe, so as to be able to join scientific institutions as well. Following the establishment of relations with Slovenia and Bosnia-Herzegovina, it is necessary to conclude agreements on scientific cooperation with these countries. Europe expects us to do the same with Croatia as well.
- To endeavor by all means to submit superior proposals for the tenders that will be opened in March, if not officially, then together with the delegation of Slovenia, or Macedonia.
- To offer our five-year plan of scientific and technological development to the European Commission for verification. We would thus demonstrate good will for mutual cooperation, i.e. for integrating with the European Union in the sphere of science as soon as possible.

**We lack not ideas,
but the modern
language of grant
proposals**

**The government
must foster
integration with EU
scientific projects**

MACROECONOMIC REVIEW

Prices and Wages

According to official statistics, the annual inflation rate measured by retail prices was 114.8%, while the cost of living index in December 2000 year-on-year, stands at 220.4%. The prices of industrial products registered the highest growth at 22%. The expected increase in the costs of living in December is around 4%, while the growth of retail prices is projected at 3.5%.

The breadth and pace of price liberalization will play an essential role in determining near-term inflation trends. The direct effects of a liberal increase (by only one percent) of prices still under control (municipal services, electricity, and oil derivatives) would be a minimum of 0.17%. This means that the further sudden elimination of price disparities, bringing about a 20% increase in the prices of these products, would produce a 3.4% increase in inflation. Multiplier effects would follow very soon and would bring into question, already at the very start, the government's commitment to hold inflation to ten percent inflation. Indeed, radical price liberalization would realistically lead to an annual inflation of around 25%. However, it is realistic to expect that a decision on price liberalization, or at least its full implementation, will be somewhat postponed.

The net wages in November (3304 din. or 110DEM) increased by 13% in nominal terms month-on-month, but this did not translate to major growth in real terms. The real purchasing power of wages (nominal wages deflated by the cost of living index) increased by 1.2% in November, unlike the preceding month when the real purchasing power of wages fell by 8.5%. Due to traditionally higher payouts, the December wages will improve this year's wage average. Monthly growth is expected to range between 16 and 18.5%. With an expected monthly inflation rate of around 4%, this would increase the purchase power of wages by around 12%, while the hard currency equivalent would amount to around 130 DEM.

Net pensions in November relative to October 2000, expressed in DEM recorded a 12% growth in both real and nominal terms. The real purchasing power of pensions measured by the cost of living index is up by 0.14%. A part of the international donations have been used for these purposes as well. Pensioners with monthly earning below 1299 dinars have received non-recurring assistance from the Swiss government worth 1025 dinars.

Output

Industrial production in the FRY this November was up by 7.6% relative to the preceding month. Production in Montenegro increased by 2.5%, and in Serbia by 7.9%. Production growth in Central Serbia was up by 8.4% and in Vojvodina up by 7.0%. Twenty-two sectors have registered growth – between 0.3% (the manufacture of finished textile products) and 122.7% (iron ore extraction), while 13 sectors recorded a decline of between 0.4% (the manufacture of finished wood products) and 31.1% (the production of diversified products).

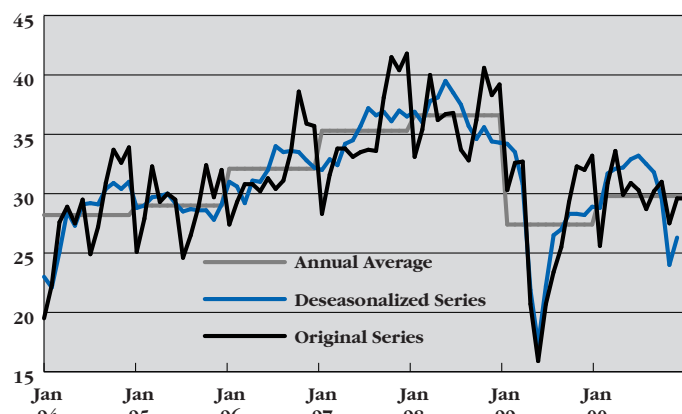
The deseasoned index for November shows 9.8% growth in industrial production relative to October. November industrial output in the FRY went down 4.2% year-on-year when the impact of seasonal factors was the same. In eleven months of 2000, industrial output in the FRY was up by 13.2% relative to the same period in 1999. Montenegro recorded 5.9% growth, while growth in Serbia was 13.7%. Industrial output in Central Serbia increased by 15.2%, and in Vojvodina by 10.4%.

Industrial output in the FRY in November 2000 was down by 70.7% relative to November 1989, and down by 70.2% in the January-November 2000 period compared to the same period in 1989.

The Serbian electric power industry registered a 9.5% output growth in November relative to October 2000. According to the latest figures (December 25), electric power production dropped in December by 5.7%.

According to preliminary figures of the Federal Bureau of Statistics, industrial output increased by 12.2% in the course of 2000 compared to the preceding year, while in the last month of 2000 industrial production remained at November's level. Furthermore, the drop in agricultural production is larger than the rate used in the last issue of the bulletin obtained on the basis of the data collected until

FRY Industrial Production
1989 average = 100



that time. Instead of 17.7%, the drop amounted to 19.7%. The estimated GDP data from the previous issue must be reduced, since it was presumed, on the basis of data for nine, i.e. ten months, that higher growth rates would be achieved by the end of the year. The period of institutional void during the transition obviously produced far more serious effects.

Official statistics registered a 7% growth of GDP in relation to the material concept. As the SNA concept expands, primarily due to the inclusion of non-material services, the GDP growth rate will increase.

Foreign trade

The real hard currency exchange rate registered further appreciation. After almost two years of the dinar's real depreciation, the domestic currency's real value stands at around 74% of its average value in the 1994-1998 period. The lowest real value level was recorded in September when the dinar dropped to only 46% of the mentioned average. Nevertheless, such trends still produce a negligible impact on real import-export trends. The current imbalance on the domestic market is covered by donation-related imports.

Total imports in the January-November period amounted to USD3,321 billion, while exports totaled to USD1,562 billion. Relative to the first eleven months of 1999, exports increased by 13.6%, and imports were up by 11.1%. The export-import ratio for the first 11 months of 2000 was 47%.

Taking into account possible corrections, the Yugoslav economy's commodity trade deficit in 1999 will range around USD2 billion. Exports dropped by 4.22% in November relative to the preceding month, which amounted to USD131 million, while imports increased by 2.09% and totaled at US\$252 million. The

export-import ratio in November was 51.8%. Serbia exported goods worth US\$124 million, while its imports amounted to US\$233 million. Relative to November 1999, both exports and imports registered a drop by 8% and 11.6%.

In November, month-on-month, electricity imports and exchange (expressed in USD) increased by 78%. This trend continues so that by December 25 the import of electricity was up by 75% on November. If the average KWh price is 3.2 cents, then electricity imports alone (including exchange) totaled to USD50 million. Of course, this sum should be taken conditionally, since it is uncertain whether the amount will actually be paid. In this case too, deficits are covered by donations.

The main export partners of the FRY in November were: Bosnia-Herzegovina (with Republika Srpska) 15%, Italy 12.8%, Macedonia 12.2% and Germany 10.3%. The countries from which it imported were: Germany 12.8%, Italy 10.5%, Russia 8.9% and Bulgaria 8.9%. The FRY has a positive balance only with BiH and Macedonia, while its largest trade deficit is with Germany USD269 million and Bulgaria USD279 million.

Aluminum and raspberries had the largest share in the FRY's exports. Due to the reduction of customs burdens, consumer goods are expected to prevail among imports in the future.

Money

The money supply (M1) at the end of November was 26.67 billion dinars, i.e. 889 million DEM. With the inclusion of dinar quasi-money, the M2 money aggregate was 31.93 billion dinars. The nominal money supply (M1) relative to October was up by 11.5%, while an expansive monetary policy continued in December as well. At the end of 1999, the money supply exceeded the level of one billion DEM with DEM 1,042 billion.

The ratio of the money offer and demand in the Serbian economy, if the dolarization problem is excluded, is relatively easy to follow. A good approximation of the transactional money demand (other motives for keeping dinars – caution or manipulative motives practically do not exist) is the trend of public revenues, since their share in the social product is exceptionally high.

While transactional demand is a stable magnitude, divergent trends have appeared in the real money supply expressed in German marks and that expressed in real dinars. Over the past four months, M1 expressed in hard currency has increased by 43%, while the M1 expressed in real dinars has dropped by 13.8%. This growth consists of two components. First, with the stabilization and official devaluation of the exchange rate, the dinar's black market and giro exchange rate became insignificant, and so was the previous manner of calculation, according to which one of the components of the M1 money aggregate – deposit money – was reduced to its real hard currency value with the use of the dinar's higher giro exchange rate. Secondly, the dinar achieved real appreciation due to high monthly inflation rates at the end of the year following price liberalization.

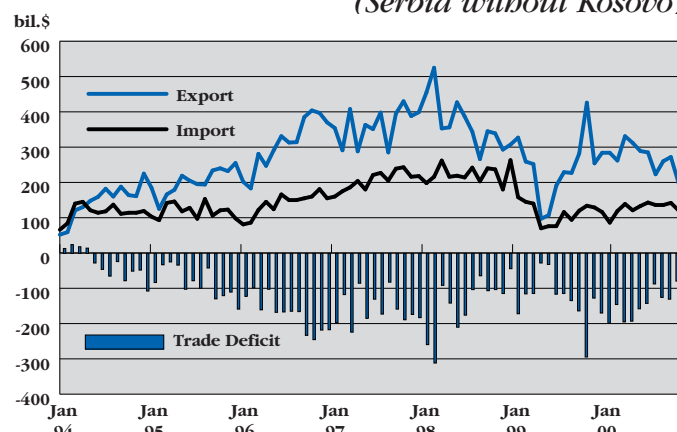
Over the past months, the National Bank of Yugoslavia's (NBJ) transparency has considerably increased and a decision on the monetary policy for 2001 was also taken. According to announcements, primary money will be released only on the basis of an increase in hard currency reserves and operations on the open market within the permitted growth of net domestic assets (which also represents the control aggregate). This aggregate is planned to increase by 500 million dinars in the first three-month period. As of the beginning of the new year the NBJ's monthly general discount rate of 2% will be applied. The NBJ projects that monthly price growth will fall below 1%, i.e. an annual inflation rate of around 10%. In this case, the discount rate would be of a real positive magnitude and would begin to perform the function of an instrument. Nevertheless, in 2001 the inflation rate will be decided on to a lesser degree by the NBJ and more by the republican government at it makes choices on the pace of chosen liberalization.

The decision to introduce a guided fluctuating exchange rate as of January 1, 2001 can be explained by the fact that they do not believe at the NBJ that payment balance difficulties will occur amid the expectation of a larger inflow of assets into the capital account. In 2001, a higher trade deficit is expected – due to the liberalization of imports, the further inflow of donations and partly also because of the appearance of "hidden" imports. This last element will be counterbalanced by the unstated inflow of hard currency. The second element – the introduction of a new hard currency regime, is based on the argument concerning the domestic economy's submonetization. A restoration of confidence in the dinar (accompanied by an unprecedented marketing campaign) would lead to a change in the household portfolio and the additional growth of hard currency reserves, which would again be used for intervening on the interbank hard currency market.

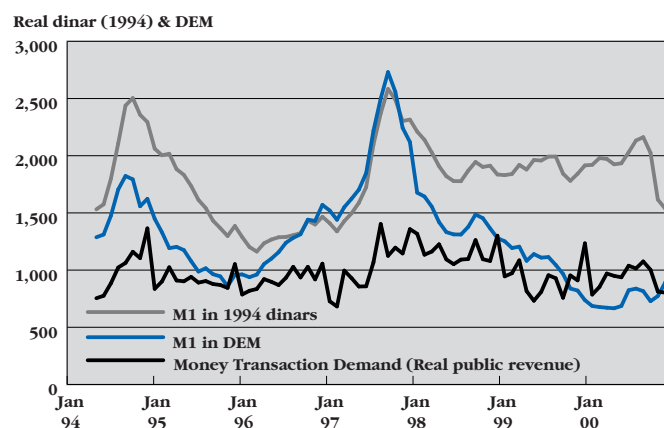
It should be noted that the National Bank's moves were also partly conditioned by admission to international financial institutions.

Finally, the federal assembly has adopted the budget. It amounts to 45.87 billion dinars, i.e. USD745 million, representing a considerable reduction. Budget revenues are of the following structure – 52% from the sales tax (including the special federal sales tax and excises); 31% from customs duties; 8.2% from taxes and 8.8% from special and other revenues. The financing of defense is 32.13 billion dinars or USD522 million. Apart from defense, which accounts for 69.9% of overall federal expenditures, the remaining important items are federal employees at 15.7%, obligations towards pension funds at 7%, and funds for interventions in the economy which account for a little over USD 30 million, or 4%.

Commodity Import and Export (Serbia without Kosovo)

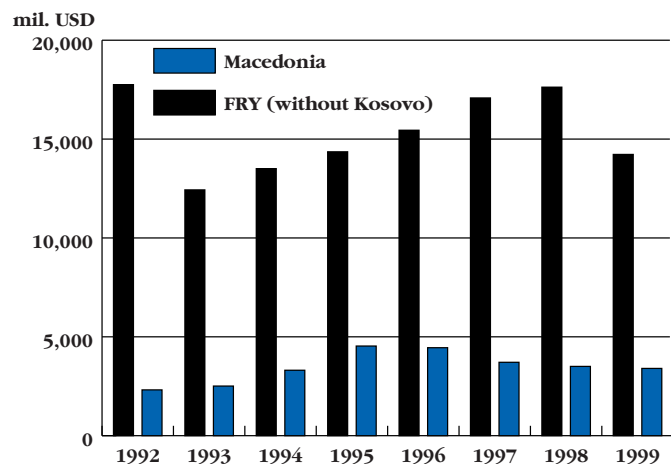


Real Money & Transaction Demand

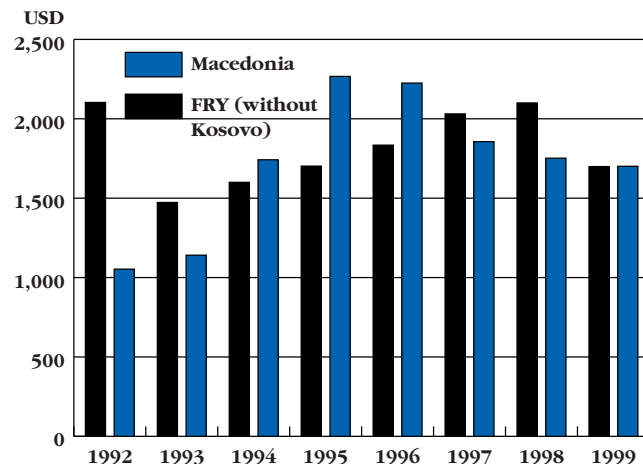


Yugoslavia in the mirror of Eastern Europe

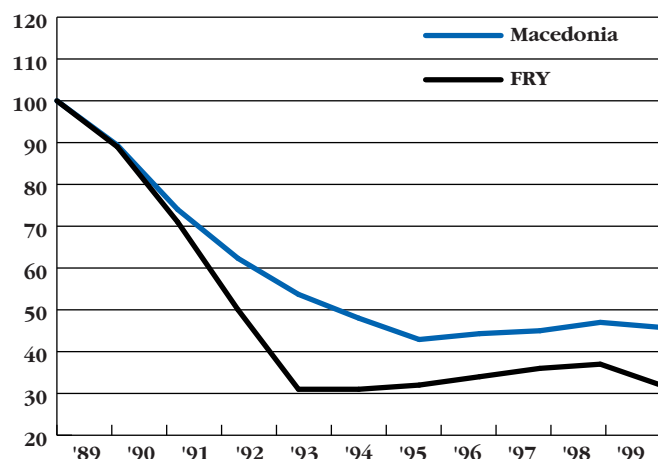
GDP



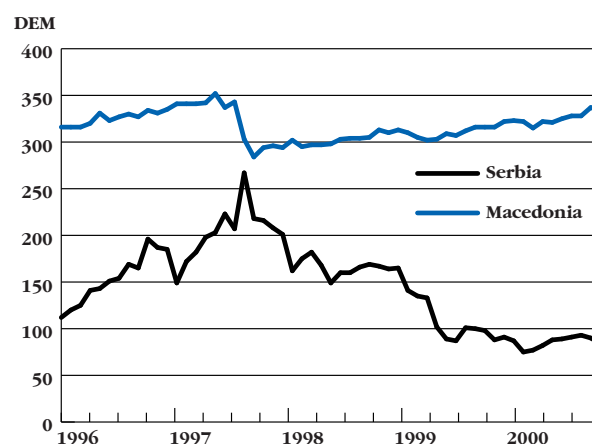
GDP per capita



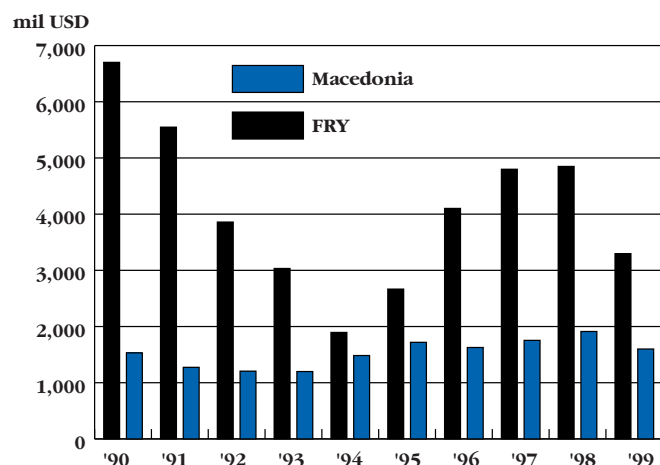
Industrial Production 1989 = 100



Salaries Quarterly Wage



Import



Export

